

Discussion Paper N° 2018-67: Zero-coupon interest rates: evaluating three alternative datasets

This paper provides guidance for final users to choose a yield curve dataset, depending on their goals. To that purpose, the authors analyse three popular zero-coupon yield curve datasets: the US Department of Treasury or H.15 (DoT), the Federal Reserve Board (FRB) and Bloomberg (F082) datasets and warn the readers of the different methodology, cross-sectional market data and baskets of assets used in them which could affect the results of any research based on these datasets.

The authors underline that the main difference between these datasets is the liquidity of the considered securities. Specifically, The DoT estimates includes only the most liquid assets, the on-the-run securities; The FRB dataset excludes all the bills and the on-the-run and first-off-the-run bonds and The F082 dataset includes all the outstanding bills and bonds.

The main results of this paper highlight that The DoT dataset provides on-the-run yield curves that could be suitable for pricing liquid short-term securities, for calibrating interest rate models, and for other purposes in macroeconomic research, monetary policy, or analysis of investors' risk preferences. The FRB dataset offers off-the-run yield curves with low volatility levels for most maturities, which could be appropriate for pricing bonds and other medium and long-term instruments with a "regular" liquidity level and for market risk management purposes. Finally, The F082 dataset provided by Bloomberg performs a good fitting for all maturities and so, it provides an accurate view of the current full market situation, meanwhile it also shows the "average" liquidity level in the US bond market.

In my opinion, it is a really outstanding paper because the zero-coupon yield curve is a necessary benchmark in most fixed income studies and I agree with the authors that the choice among alternative zero-coupon yield curve datasets is essential for final users.

So, this paper contributes to literature with a simple but very useful idea that would help to these final users (researchers, traders, portfolio managers, policymakers, and other users from the academia or the industry) to know what is the most appropriate dataset for their objectives and how this choice could affect their empirical results.